December 14, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1850-100

Dear Technical Director:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (the Board) Proposed Accounting Standards Update, *Leases* (the Exposure Draft). We agree that the development of a single, converged financial reporting model for leases should be a priority of both the Board and the IASB, and that the “bright-line” distinction between capital leases and operating leases under current guidance has led to a lack of comparability and increased complexity for financial statement users. However, we do not believe that the current proposals will eliminate complexity and improve comparability without further amendments. In that regard, we have summarized below our comments on the Exposure Draft, which we have organized by significant areas of concern.

*Measuring the Lessee’s Liability*

We disagree with the concept of estimating the lease term as the longest possible term that is more likely than not to occur for purposes of measuring the lessee’s liability under the proposed model. We believe that this method is inconsistent with the Board’s conceptual framework for recognizing liabilities on the balance sheet, and that the “more likely than not” threshold would involve a degree of subjectivity that would reduce comparability and add complexity for financial statement users. We believe that for purposes of measuring the lessee’s liability, the lease term should only consist of non-cancellable periods and optional extensions that are reasonably assured of being exercised. We believe that the “reasonably assured” threshold for recognition, along with adequate disclosure of renewal options and their likelihood of being exercised, would address the Board’s concern that the contractual obligation alone does not measure the total liability, while remaining consistent with the Board’s conceptual framework and presenting the most useful information in a more appropriate context.

In addition, we disagree with the expected outcome approach for estimating contingent payments due to the lessor. To the extent this approach includes payments that can be avoided by the lessee (e.g., payments based on usage), we believe this approach is again inconsistent with the Board’s conceptual framework for recognizing liabilities. We believe that residual value guarantees and contingent payments based on factors outside the lessee’s control should be considered in measuring the lessee’s liability. Additionally, even if one perceived the expected outcome approach to be consistent with the Board’s conceptual framework for recognizing liabilities, we believe that when considering the number of leases that a lessee may have under contract at any given point in time, the expected outcome approach would add significant complexity for financial statement preparers without a corresponding benefit to financial statement users. We therefore urge the Board to consider a model that is more consistent with the Board’s conceptual framework for recognizing liabilities, such as a model based on a reasonably assured and estimable threshold for each contingency. In addition to being more conceptually consistent, such a model would also be more operationally feasible than the expected outcome approach.
Lessor Model

We believe that the lessor’s model for recognizing and measuring a lease asset should be consistent with the lessee’s liability model, using a reasonably assured threshold for both lease payments and term.

With respect to leveraged leases, while we understand the Board’s objective in eliminating the separate approach, we believe that much further guidance should be provided with respect to transition of existing leverage leases. Specifically, we urge the Board to provide specific transition guidance for the associated nonrecourse debt and deferred taxes, as well as consolidation matters regarding existing trusts and other legal entities.

Transition

While we understand the Board’s objective in the proposed simplified retrospective method of adoption, it is important to note that this method will result in a distortion of interest expense for lessees in the earlier periods under presentation due to the application of the effective interest method. In addition, we believe that the incremental benefits of a full retrospective method, in terms of better comparability and reduced complexity for financial statement users, could more than offset the incremental costs compared to the simplified method. We therefore believe that a full retrospective method should be permitted when viable.

It is important to note that existing accounting systems will require significant modifications or replacement in order to comply with the proposed models, and that these modifications and replacement will require extensive effort. In addition, the final standard will potentially impact regulatory requirements for financial institutions and financial covenants for many other entities that will need to be addressed prior to transition. We urge the Board to further consider such factors when deliberating the effective date of the final standard.

We appreciate the opportunity to provide our comments and observations on the Exposure Draft and would be pleased to discuss our views with you at your convenience.

Sincerely,

Daniel T. Poston
Executive Vice President and
Chief Financial Officer